

Region VII  
Heartland States

**Regulatory Enforcement Fairness  
Hearing**

St. Louis, Missouri  
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P R O C E E D I N G S

**MALE SPEAKER:** Well, here's what we're going to do -- we've got someone from CNS here; he's back there. I'm going to have you talk with him, while we hear some other testimony, and then I'll have them come up at the end of the testimony, and see what we can do about this. Also, a couple of things are that -- you said you talked to several other people who are having the same problem?

**MALE SPEAKER:** (Inaudible) if I've heard it one time, I've (inaudible)

**MALE SPEAKER:** I would encourage you to let them know about our office. The way this works, is the more people we hear from, the more credibility we have going to the offices there in Washington, D.C. So, I would encourage you to really take advantage of this and go to our website, send in some comment forms (inaudible).

**MALE SPEAKER:** I'll do that.

**MALE SPEAKER:** Okay, and if you wouldn't mind (inaudible) with problems at the end.

**MALE SPEAKER:** Okay.

**MALE SPEAKER:** Thank you for your testimony. Okay, we've got Cecelia Conley.

**MS. CONLEY:** We've got it working!

(Laughter)

It's probably good -- my voice doesn't carry too well. You're lucky I have this all typed up because, I could just go on and on. But, I have to say, I'm very grateful for the work that I get from the government, so what I have to say isn't really against the government, it's just some issues that I'm having a problem with -- I just want to set the slate clear.

I am Cecilia Connolly with Conley and Associates. I'm a certified 8a, women-owned company and we've been in business for 20 years. We have provided products and support services to the Department of Defense and commercial entities worldwide for over 20 years. We operate from (Inaudible) Missouri, that's our corporate office. We have offices in Newport News, Virginia, in Michigan, and in Davenport, Iowa.

There are several topics that I do wish to speak on, and they have to do with receiving payment from the government and also, our payment from prime contractors, and the trend of

the contract bundling issue, and the cost structure for the government contracts.

The first issue I will talk about is receiving payments. Cash flow is the life-blood of a small business. When the cash is not flowing, the company is unable to function, much less grow. By having a substantial line of credit, I am able to manage most circumstances. However, when a customer does not pay, my ability to function efficiently begins to falter.

Now, for years, we've been receiving payment from the government within 15 to 30 days. Government cutbacks have drastically increased the time between invoice submittal and payment. I have been waiting since December for payments of approved invoices. Our credit line is nearly exhausted. If we do not receive payment soon, I will be forced to make an unpopular decision to keep the business going. And this hurts. It's painful. We provide valuable services to our soldiers, and I want to continue that.

Now, an issue with the prime contractors and Conley and Associates as a sub-contractor -- the payment issue is receiving payment from the prime contractors. We provide timely products and services as a sub-contractor, then have to wait 90 to 180 days for the payment. I am told that we will receive payment after they receive payment from the government. I believe this is an issue that should be addressed by the government contracting community.

Now, the issue on contract bundling: I was at a meeting in Washington, D.C. several years ago, and there were about 20 other small businesses, and that was the whole issue -- the bundling issue. In my opinion, contract bundling has a severe negative impact on small businesses. It is next to impossible to get new work if you are not on someone's team. Specifically, the contracting process, most major procuring activities have bundled their contracts. They award two to six contracts to successful teams and those individual teams compete for individual contract awards.

Prior to the award of a bundled contract, each team must submit a business team, a business plan, and that takes time. Right now we're on a number of teams, and there is only one team that has asked for us to do any sub-contracting work. I mean, a lot of work is put out, and I'm at the point of what is the use? It takes so much of my time and those prime contractors are not using us, and we have everything to provide for them that they need. So, there's not a problem with us not being able to provide the service or the products to them.

Federal contracts all have provisions for small

contracts -- small business participation. In my opinion, this is being ignored. Contracting offices are not enforcing this part of the contract. I would like to see a report that indicates the percentages of small business participation on each and every award. If the contract's small business goals are not being met, then make the contracting officer and prime contractor responsible. Terminate the contract, or assess fines and penalties.

Now, the cost structures for the government contractors: As we all know, there are many aspects of establishing and running a proper business -- I want to summarize this. We have direct costs, cost of labor and materials, fringe benefits, overhead charges, general administrative charges and profit. We negotiate these rates with the government and control them to the best of our ability.

However, our costs for health insurance continues to go up, so our fringe benefits cost increases. Our liability insurance has quadrupled since 9/11, thereby increasing our overhead costs. With the government not paying on time, our interest charges increase from our lending institutions, so up goes our GNA expense. All of these added charges come from our profit, not our negotiated rates with the government.

The majority of our contracts are time and material. On labor we are able to charge the five areas of direct costs, labor, fringe benefits, overhead, GNA, and profit. But, on material we can only recover the actual cost of goods purchased plus our negotiated GNA expense -- no interest, no profit. Now, when payment is delayed for any reason, our bottom line is affected, and all prompt payment and other discounts must be passed on to the government.

Recently, we purchased some radio equipment for the Army to be shipped to Korea. It looked like the shipment was lost. However, it was in their warehouse, and the customer did not realize that their equipment was in their warehouse, so they refused to pay and threatened to cancel the contract if they did not receive the radios within seven days. So, we purchased another set, and shipped it again. And there we are also delayed.

So, after two months, the customer found both shipments sitting in their warehouse, and wanted them to be returned to us. And we are still waiting, and it is now three months and counting. Since this was a firm fixed contract, all we will receive is GNA, not the extra shipping charges, restocking fees, time involved in tracking and phone calls, once the government signs the receiving document, which we have not received.

The government is a rough negotiator, as they should be. They have our rates set low based on actual expenses in the past. However, they do not take into account the delay from time of performance to time of payment. This causes me my greatest area of concern. I believe I should have some recourse from the government when the delays are out of my control. I would just like to -- this is the conclusion of everything that I would like to see happen -- fix the government payment system, require prime contractors pay their sub-contractors within 30 to 45 days, enforce small business participation clauses in bundled contracts, and withhold all future contracts for those that violate these clauses.

Make the government responsible for expenses caused by their actions, or inactions, during the performance of a contract, and establish a method for a contractor to recover costs due to these government delays.

**MALE SPEAKER:** What kind of business do you run?

**MS. CONLEY:** We provide equipment and install and design (inaudible) on board Army vessels. And we do logistics.

**MALE SPEAKER:** What agencies do you deal with in (inaudible)?

**MS. CONLEY:** (Inaudible) COM.

**MALE SPEAKER:** (Inaudible) COM.

**MS. CONLEY:** That's up in Michigan -- Warren, Michigan.

**MALE SPEAKER:** Are they part of the Department of Defense?

**MS. CONLEY:** Yes.

**MALE SPEAKER:** Okay, thank you. We have Todd KAMP.

**MR. KAMP:** I actually brought reinforcements. I'd like to take kind of a broader approach to this. I know it's not popular to use the term...

**MALE SPEAKER:** (Off mike.)

**MR. KAMP:** Okay.

**MALE SPEAKER:** Have you filled out a comment form?

**MR. KAMP:** Not yet. I will do that.

**MALE SPEAKER:** Did you submit written testimony?

**MR. KAMP:** No.

**MALE SPEAKER:** Okay, if you did that, it would be helpful.

**MR. KAMP:** Okay. I'm going to start with the broad brush approach that hopefully will apply to more agencies than picking a specific area, but then, bring it down to a specific situation.

I've been in business -- small business, started from scratch -- almost 30 years. I started when I was 12. I'm kidding. But, over those years, I could speak for several hours from experiences starting, basically, from a one-employee shop and growing, and it seems that part of what we battle as a small business, is regulations.

The problem with regulations, and what's been spoken and talked about today, is that do you have the time to familiarize -- it's great that you do pamphlets; it's great that you do all those things -- but as a small business you can't spread the workload to familiarize yourself with all these laws over a large employee group. So, the question is not how can we get more pamphlets to read, the question is how can we make the system work.

As an example -- and I don't want to pick on the IRS, as I've got my name tag on here -- but in the old days, and this may not be a fair criticism today, but a good example. We had to report withholdings like every quarter, because we weren't very big, we didn't hit the amount. Then one day, all of a sudden, we hired some other people -- that's a good thing, you want to employ people, that's why people get excited about small business that we provide 52 percent of the employment -- and all of a sudden, we need to report every month.

We don't realize this, so we go two or three periods before the IRS catches up to it. Then they fine us, but they go back and fine us for two or three pay periods, and the fines are pretty stiff. If there was some way that you could say to a small business that's growing

-- we're now at the point we use ADP and we don't have to worry about it -- but, on small businesses, when they first get caught on a particular item, let them just pay the back amount and the interest, don't fine them.

I think the key thing here -- be it the IRS or any other government agency -- is give, just like you would with your child, give them a warning. Until such time that you catch them, and if they don't know it, then that first time say, okay, pay the back interest, pay what you owe, but we're not going to fine you this time. Now, if you do it in the future, yes, you're going to get fined. I think that could apply to almost any government agency.

I think the key here is how do we create a situation

that helps small business and can be a generalization that Jim Talents' representative can take and maybe change the -- hopefully, in the long term -- come up with a strategy to change the laws not to create many of the situations that we have.

As a small business, we have three basic areas that hurt us. Insurance -- I've heard about bonding -- but any small business can tell you about what their insurance costs are going to. One of the problems as a small business is that you don't enjoy the luxuries of a large corporation where, in essence, within your corporation you can pool.

So, we have to -- and then, and I'll pick on Blue Cross, I'm not proud. In 1991, we got Blue Cross insurance, and I was told, oh well, it's a pooled insurance program. What they didn't tell me is that it was pooled by four-digit zip codes, so that means that out a thousand -- or 9,999 -- potential business categories; I'm going to get pooled on my specific four-digit zip code category. And, that's not all bad.

Why shouldn't an insurance pay insurance based on the exposure and the risk of their industry? But, then it was pooled on a nine-digit zip code. Now, if you don't know, a nine-digit zip code applies to either one building, maybe even an office within a building, but in the worse case, maybe a block.

So, I'm now pooled on a call center in the service industry, within one block. I hate to tell you, there are no areas that I know of in St Louis or most other places in the country, where there's more than one call center in a block. I daresay that Blue Cross -- out of all their insurers -- didn't have almost any of those small businesses that were truly pooled. If you require insurance to be pooled by industry on a reasonable geographic size, then the problems that you heard earlier about bonding, etc., would be pooled against small and large business, and we wouldn't be faced with those problems. That would solve a whole lot of problems in the bonding area, in the insurance area, etc.

Right now, and hopefully because I don't think we break the law, I have two people, out of my full-time people, which there are only about 12 or 13 on insurance, who are diabetic. I've been told that, you know, I should find a way to get rid of those people, so my insurance rates would go down -- that's illegal as hell, number one, number two, it's immoral. I still have those two people, and it's costing us money. But, if we were truly pooled, we couldn't create the situation that encourages people to break the regulations.

So, what I'm suggesting is that maybe we look at some of the regulations and the laws, and see if we can change them

so we don't create a situation that causes the need for enforcement.

Employees -- I still remember when we had to use the mirror test that if somebody came in for a job, and they could fog a mirror, we had to hire them right away. Those days weren't too long ago, and hopefully those days will be here again. So why, as an employer, would I want to not employ somebody? The only reason is because it becomes such a hassle to handle them. I mean I don't care if they have three eyes, five heads, if they can do the job, why do I care -- unless there are situations that create problems.

Taxes -- right now we are only paying .2 percent tax in our company, our corporation, so obviously we manage that well. We don't do things we shouldn't do; otherwise we wouldn't have that rate. But, I am looking at that if something isn't done in Missouri, our 4.5 percent (inaudible) tax credit is going to go away.

If the state legislature in Missouri can't resolve this issue, and the fact that the fund is broken and small business -- and large business for that matter -- loses this 4.5 percent (inaudible) tax credit unbeknownst to many of you, all of a sudden small business, and my payroll is over \$600,000.

Now, granted, that's only going to be on the first \$7,000, but all of a sudden, I'm going to have a 4.5 percent increase in my (inaudible) tax. And I don't think too many small businesses are even aware of that situation in the state area. So, taxes are a concern to me.

Let me take this around to a specific, like these other two fine people here. Wendy works for me, she has a disability, which is something new for her because she was just like you or I until less than two years ago. So this could happen to any of us. All of a sudden, she found herself as a paraplegic in a wheel chair. Now, here's where I say we have to fix things at a higher level than talk about specific regulations.

She is allowed -- she gets \$700 and change in Social Security. If you do the math on this, if she doesn't work, she is being put in a situation where she is below the poverty level. If she does work, and it's not only Wendy -- I talked to John Thompson with Lighthouse for the Blind -- but in general, people with disabilities that didn't ask to be here, it's not like they don't want to work. If they make -- in Wendy's case, \$800 if you're blind, \$1350 a month -- if you make \$801 you lose all your benefits; all of them.

Now, even with retired people, we let them make two



and lose one. If a blind person makes \$1350 and they make \$1351, they lose the benefits. Right now, one-quarter of the Lighthouse for the Blind's people manage their time so they don't break that limit. Those are the ones that are obviously doing it. They feel that there's greater than 50 percent -- probably in the neighborhood of 60 percent or 75 percent -- that are managing their time so they don't lose their benefits.

Now, that means I'm paying Social Security taxes -- we all complain about Social Security being broke -- I'm paying Social Security taxes because we've created a situation where these people can't afford to try to help themselves. Wendy sat there one day and said, just let me work -- don't pay me. I said, Wendy, I can't do that; Wage & Hour will be after me.

Let's go back and look at some of these programs and see if we can find a way to make them work better, and take away the impetus for somebody to break the rules rather than spending all the time and money we spend to enforce them. Why not let Wendy make \$803 and only take away one?

I will point out some things in case this becomes an issue down the road. She can deduct certain things that are her costs, but keep in mind that just being paralyzed makes the standard of living -- she has to spend more money to obtain the same standard of living as somebody who's fully functioning.

I don't want to embarrass her, so I'll try and keep these comments general, but just because you're paralyzed from the waist down, doesn't mean your bodily functions stop. So now, here's a whole new set of things that have to be addressed just for her to get to work. And then she can't work -- it's very difficult to work eight hours.

At some point in the day you have to be cathed, you have to have certain other things taken care of. Fortunately, we have some wonderful people who work for us who help her with those things. Fortunately, she's a big enough person that she's not embarrassed by that -- or she probably is, but handles it well. The best thing that has happened with having Wendy is that our non-handicapped people don't complain so much anymore. I go home at night and I say, gee, I don't have too much to be (inaudible) about.

We need to do something to help people like Wendy, and make it more advantageous for employers to employ handicapped people. We don't do it. I think Christine Landy from Goodwill will tell you honestly that employers are worried about hiring handicapped people because of the restrictions and problems. You have less flexibility with the person. As an example, if I need somebody to work overtime, I pay them overtime, but with Wendy, if I work her overtime, I may cost her her benefits, so I

have a less flexible employee because of the rules.

I have other problems because of the rules. I think we can go back and look at these programs and change them somewhat, where we get rid of the problems rather than, to use that improper term -- swatting at flies. Take a look at our laws and say, how can we improve them so that we reduce the need for regulation?

Wendy would like to talk a little bit about what her problems are. I think the reason I brought these two, I thought in terms of legality and you can't testify to hearsay, so I thought if we have the people that can speak in person.

**MALE SPEAKER:** (Inaudible) this will help me as far as (inaudible). You said a lot of things. We need more specificity as far as what agency you are concerned about? What particular things the agency -- that's really the way we can affect things.

You talk about the general state, and that's very, very important, but for us to have any kind of impact, we need some specifics. I also need you to fill out a form. We can't do anything without that.

**MR. KAMP:** Okay. I will be happy to fill the form out, but my problem is that -- and I understand this is your charge -- but I'm suggesting that maybe Jim Talent's representative and you, that if you want to accomplish this goal that maybe you can do it on a broader scale.

**MALE SPEAKER:** (Inaudible) tell you give us more specifics.

**MR. KAMP:** Specifics?

**MALE SPEAKER:** (Inaudible) more specific, as far as (inaudible). (Inaudible), it's huge. It's huge, I think you touch on many things IRS and the Department of Labor, Social Security possibly -- you've touched on a lot of these things. To help us, (inaudible) help us help you. If you can provide us a little more guidance on exactly what you're looking to accomplish.

**MR. KAMP:** Can I suggest that SBA's Ombudsman, etc. -- and I'm having trouble talking up here

-- look at some of these things on a broader scale. Instead of swatting at flies, come up with a strategy...

**MALE SPEAKER:** (Inaudible) regulation and (inaudible). We're asking you to give us the (inaudible)...

**MR. KAMP:** Okay.

**MALE SPEAKER:** Okay. Ma'am, do you want to say

something?

**MS. RICE:** Yes.

**MALE SPEAKER:** Can you give her the mike?

**FEMALE SPEAKER:** I'll give her the mike.

**MS. RICE:** Good morning. My name is Wendy Rice, and I came this morning in hopes of sharing with you the cliff that all people like myself fall off of. I, like other handicapped people, want to work, but the system lets us work for nine months (inaudible) over a trial period. We can make as much as we want.

After that time, you fall off the cliff, meaning we are then subjected to following the rules (inaudible), like myself \$810 a month in order to keep my disability benefits. If you have other types of disabilities like the blind, they can make \$1400 a month. But if you go over that, just by one penny, you fall off the cliff and lose it all. No money, no medical, no nothing.

Whether you know it or not, it's an expense for us to (inaudible), such as transportation and any and all medical supplies and bodily function items that are needed in order for us to work.

The system puts us on a rope and lets us go so far, and we either stay at that level, which is below poverty, or we (inaudible) off the cliff and have nothing, or end up back at home not working (inaudible) functioning skills and very frustrated and depressed, which is not good for us mentally or physically.

Mr. KAMP is taking the frustrating task of giving me an opportunity to be employed in his small business establishment. Whereas, as opposed to bigger corporations, (inaudible) people have elected to help me with my bodily functions and medically mandated procedures that must be done during the day in order for me to work.

When I say frustrating, I mean for the employer, Mr. KAMP, works with me and the system to make sure I don't go over that \$810 a month -- in order not to fall off the cliff. By doing so, he has to make sure that each pay period, I'm only scheduled for so many hours, no matter how many hours that may be -- I have to stay within the guidelines. No matter if there is little extra scheduling if it was booked with me on there.

Being disabled really makes it sort of difficult to work. It's a mental challenge to keep from falling off the cliff that would put me in a worse position financially, mentally and physically. I conclude that the people who made

these laws never had the experience to sit or live in a wheelchair, nor did they confer with anyone in a wheelchair to know what it's like and how you live on such a guideline of financial aid. Thank you.

**MALE SPEAKER:** Thank you for the opportunity. Thank you for (inaudible). Rose can get a hold of me, and (inaudible) help. Okay? Thank you.

**MALE SPEAKER:** (Off mike)

**FEMALE SPEAKER:** It's still working.

**MR. SIMON:** Good morning. Thank you. My name is Bill Simon. I'm the vice-president and chief operating officer here. The Small Business Administration is properly interpreting and enforcing the rules regarding eligibility of firms for SBIR awards in regards to both ownership and control. But perhaps, some limited evolution should take place regarding these rules.

We can all agree that the SBIR has provided early stage advanced technology companies with billions of dollars in systems funding, without needing direct payback or ownership dilution. There is much documentation that this has helped the U.S. economy maintain and/or achieve its dominance in many technical subject areas.

Typically, these companies are formed by the technical entrepreneur; who then seeks funding to advance product development and make the idea into a business. Often angel investors feel the gap between initial formation and more professional owners. Universities, large companies -- both of which are SBIR ineligible -- and others may have a share due to licensing arrangements.

There should be no limit as to the type of ownership. Ownership will only be important at the time of some liquidity event. Control is the issue for focus. When more than 50 percent of the board is appointed by professional money managers, that is, venture capitalists, then, the firm should be ineligible for SBIR funding. If the professionals hold board seats to one-half, then they are equal to the founders and early-stage investors who are individuals, and then they have to use persuasion, rather than dictation to make changes -- management, partnering, partnership price, etc.

Please consider that the SBIR program is working well, and I'm a big proponent and fan, and a 1999 Tibbets Award winner. Any questions?

**MALE SPEAKER:** (Inaudible) explain to the people what SBIR stands for?

**MR. SIMON:** SBIR is the Small Business Innovation Research grant program. It's a \$2 billion a year set of contracts and grants from 10 to 13 federal agencies now. Most of the grants are \$50,000 to \$100,000. About one-third of them, however, are about \$3/4 million each. You have to basically meet the needs of a federal description. All of the Department of Defense agencies, HHS, EPA, Interior -- Justice now has a program, and we conduct training programs here in this room at least once a year.

This coming September 13, 10 of the federal program managers will be here. I was going to invite Sam to come again. He kicked off the one we had last January, and we'll have another one this coming January. We have had Senator Bond at a couple of these. I think Jim Talent has come to one when he was a representative. We have had representatives from Congressman Clay, Congressman Gephardt and others.

Obviously it's a very important thing and this (inaudible) area gets about 60 percent of the money that goes to the state of Missouri -- and the state of Missouri is right in the middle of all the states. It's \$2 billion a year that are going into small businesses. And George (Inaudible) is one of the big winners. He has his hand up right there.

**MALE SPEAKER:** I was just going to say (inaudible) thank you for mentioning that -- \$2 billion a year is only two-and-a-half percent of the research budget of the (inaudible).

**MR. SIMON:** Yes, and we've had federal contracting people here who have told small businesses how to get at the other 97.5 percent of those R & D budgets. We had an Army guy here on September 11 -- that September 11th -- and he said he had \$600 million a year to spend on chemical/biological warfare detection. That was his entire budget, not just the two-and-one-half percent.

**MALE SPEAKER:** We have a website that has all sorts of (inaudible).

**MALE SPEAKER:** (Off mike)

**MALE SPEAKER:** And also, the SBA website -- [sba.gov](http://sba.gov)/ (inaudible) information on the SBIR program.

**MALE SPEAKER:** (Inaudible) and there is (inaudible) website. (Inaudible) and all of the small businesses should have that SBIR (inaudible). Before (inaudible), please introduce yourself.

**MS. GLAZE:** I'm Jackie Glaze; I work for (Inaudible), In Kansas City. I'm basically the liaison -- I work the state Medicaid Agency and the federal government, so I

work with all the Medicaid issues that involve Missouri Medicaid. I'm on the Medicaid aide of the house. Mr. Whitehead, I wanted to ask you, is it Medicaid claims and Medicare claims both that you're not (inaudible) paid for?

**MR. WHITEHEAD:** (Off mike)

**MS. GLAZE:** Okay. I don't work specifically with Medicare, but I will get you a contact with the folks there and help you get this resolved. I don't know if it's a coding problem, or sometimes I see that that's the problem. Have you been told at all what the problem is?

**MR. WHITEHEAD:** (Inaudible) at EOB (inaudible) so, when it's a coding problem (inaudible) and then send it back. But, I think now that is that (inaudible). It's just not as simple as a coding problem. Because (inaudible) clearinghouse (inaudible) can't seem to figure out what the rules are. (Inaudible) a matter of trying to understand what you guys want to have.

**MS. GLAZE:** Right. Have you been in touch with anybody in Kansas City? (Inaudible), that's who we need you to get in touch with, and if you want to talk after this, I'll get you a name and we can exchange (inaudible). We can set up a call later this week, if you like to get that taken care of -- and I apologize for your problems. That's a long time to wait.

**MR. WHITEHEAD:** (Off mike)

**MS. GLAZE:** Yeah, yeah. Okay, thank you.

**MALE SPEAKER:** (Off mike)

**MS. SWAIN:** Hi, I'm Kathleen Swain and, as I said earlier, I'm with the Taxpayer Advocate Office of the Internal Revenue Service. I just wanted to say about Mr. (Inaudible) hearing information that he was talking about the penalty waiver for first-time offenders of not paying their income taxes or their payroll taxes.

I just wanted to mention that the national taxpayer advocate did make a recommendation in 2001 to Congress to (inaudible) exactly that -- a first-time penalty waiver. I just wanted to let everyone know that was a proposal made, at least for the income tax laws or the payroll tax laws. There's a full description of the recommendation in her report. So, any of the congressional representatives or senator representatives here, they might be interested in that information and I could get them the specifics on where they could reach that full discussion. Okay?

**MALE SPEAKER:** (Off mike)

**MS. SWAIN:** (Inaudible) in the front does, but you will not find it at the front desk. You need to do the

(inaudible).

**MALE SPEAKER:** Thank you.

**MALE SPEAKER:** First of all, I want to thank everybody for coming. As you heard from the testimony here today, there are so many different things that and so many different challenges that small businesses face with a myriad of agencies. It's really important that we hear from you, so that we can take this back. I guarantee you, for instance St. Louis, Kansas City, (Inaudible). (Inaudible) the reason why (inaudible) is very important to you. It's very important to the president, and I do appreciate you all taking time out of your busy days.

We know as small business people, you need to be at your business.

We also appreciate the federal agencies (inaudible) people. As you see, there are a lot of federal agencies here that (inaudible) those subjects (inaudible) anything to do with them. They're here because they want to listen because I think it's still important for all federal agencies to hear about the issues that small businesses face.

It's important for us to hear that, even though you might not have a problem with our agency, (inaudible) federal agencies. As a federal agency government it means that we make sure we are there for small business.

Now, I gave a speech in D.C. about a couple of months ago, and Tom was there -- I believe Tom was there -- we were talking about federal agencies in general, that federal agencies are almost like the offensive linemen of society. Because (inaudible) as St. Louis Rams fans -- the second best team in Missouri --

(Laughter)

You guys really do appreciate that. I'm a big Kansas City Chiefs fan, in case you didn't realize that. But as we (inaudible), we never hear from them until they do something wrong. If they do something wrong, they get called for penalties, and when they get called for penalties, they (inaudible). But we do need a referee, and we should stop this before our referees.

The important thing is that if we keep our penalties to (inaudible). (Inaudible) and if I hear from you (inaudible), we'll try to knock that down.

We also know that federal agencies are important for a society to work. If you realize all the (inaudible) road now a days, we have a very great (inaudible). The things that we do make a lot of our lives easier, but everybody says we're

not always great, but they are needed: good regulations, sensible regulations, fair regulations. That's what protects our roads; that's what protects our air; that's what protects our basic freedoms. (Inaudible) offensive penalties, a personal foul, that's what we need to try and do.

(Inaudible) -- she's here today, and I want you to touch on a little bit -- the issue of contract bundling. In fact, just last October, (inaudible) they sent out regulations that were approved to get rid of contract bundling. So, with the (inaudible) here, you got to (inaudible), that's addressing contract bundling. (Inaudible) ask the question, what are you doing about contract bundling?

So, we are making inroads on that, and we just put out some new regulations that the SBA worked on to address contract bundling. I'll make sure you get (Inaudible) office to look into this.

Taxes, we're not about taxes, but (inaudible) the tax season right now, it's interesting to hear about that. (Inaudible) small businesses benefit from the tax cuts. That's (inaudible) small businesses (inaudible) -- those who make over \$200,000 are rich. For the rest of you small business people who make (inaudible) -- hey Tom, hey Tom -- can you (inaudible), I want to get through this.

For those who make \$200,000, you know, that's not rich. Two hundred thousand dollars for a small business is not rich. We realize now that after you pay your taxes, your people, your expenses -- \$200,000 is not that much money, and it's not the rich making that money. (Inaudible) the president really wants some tax cuts that are important to small business. You can now expense a lot more than you used to -- from \$25,000 to \$100,000.

We just did a series of roundtables across the country to hear from small businesses. At every single one of those, they thanked us for -- they thanked the president for that, too -- for the tax cuts, so that they can now expense \$25,000 to \$100,000. That allows them to reinvest in their businesses. (Inaudible) people, for your purposes -- it's a very, very good tax cut. (Inaudible) tax (inaudible), we brought that down for small businesses.

On the average, small businesses (inaudible) a \$3,000 refund, and that's (inaudible) back to the business. Small business is very, very important and he had to do the tax cuts that are necessary for them, including the death tax. That's (inaudible) we have to kill the death tax, because that means small business will work. Today, you can pass that business on to your families.



I have personal experience with that. A good friend of mine who used to work for a (inaudible). She was in Cancun, on vacation, she was killed. And her family almost lost that business because of the death tax. So that the tax needs to be gotten rid of. It's not fair to small business; it's not fair to those families who are planning on passing that down to their families.

You hear a lot of the great things today in health insurance. We all know that's the number one thing that's small businesses face right now. But, the president has (inaudible) some plans to hold (inaudible); health savings plans is something that everybody should look into. It's kind of like an IRA for health plan. You start putting pre-tax money away in case of emergencies. I invite you to meet with your accountants and look into that.

Also, we're looking to help associations (inaudible). It's a situation now where trade associations can (inaudible) with military associations to form big health plans -- similar to a union tax, similar to what corporations have. They have (inaudible) health plans to their constituents because they're big pools. The president is offering that (inaudible). In fact, we have bi-partisan support in the House. We just need to get the Senate to pass that. (Inaudible) senators agree with it, but we need to get (inaudible) to pass that -- it's good for small business.

There are a lot of issues out there; there are a lot of challenges for small business (inaudible) the best that we can. The SBA is there for you too. We just had a record year out here. Our loans are up 30 percent to varieties of small business people. African-Americans loans are up 75 percent, Hispanic loans are up 40 percent, Asian (inaudible) are up. We are out there. We're doing more (inaudible) to help our people.

We just got a budget (inaudible) our 7a loan program - - we're going to have more for you, for small business people.

Again, contracting was up -- 22.6 percent in 2002, over 25 percent in 2003. That's billions of dollars. And that's because of the leadership of the administrator, the federal agencies and the president. Small business needs to do more business with the government. The government spends \$350 billion a year in procurements. (Inaudible) percent as opposed to 23 percent is supposed to go to small business, which is \$60 billion -- we did \$67 billion last year.

So, things are looking good, and things are going in the right direction. We appreciate all that you do.

One of the things that we're going to have -- I'm

going to invite everybody here -- we're going to have the SBA's national exposition this year. SBA (inaudible) is going to be May 19-21, in Orlando, Florida. And I'm (inaudible). Sam has some brochures here, some fliers. One of the things that we talked about, that we will address at this particular exposition -- one of the things when I go back is (inaudible) national reg fair hearing. We will have reg fair issues all over the country.

Also, I'll be involved in another thing called business matchmaking, which has become one of the most (inaudible) things that we've done at the SBA. (Inaudible) when you go to restaurants, it's kind of like this speed dating, and you go from one table to the next table. We'll be doing something similar for businesses. It's called business matchmaking. We will now match small businesses with representatives from state, from federal and corporate 500 buyers. The basic point is to meet for 15 minutes and then go (inaudible). We just did one in Anaheim, California. We had 3,300 face-to-face appointments between small business people and these buyers. The one we did in Houston, just before that, another 3,300. In fact, since we started, we've created 14,000 face-to-face appointments.

Small businesses tell us that. We had the know how, we just have to find another route. Because many of you who do business with federal contracting, you know, that's a difficult thing to find out a particular buying officer. (Inaudible) nine months to a year to get these people these face-to-face appointments. It's been an incredible thing for us. That (inaudible) contracting and generate as we saw with the business matchmakings, and it's been over 50 companies that have been (inaudible). We figure it's only going to grow.

As you know, those who do federal contracting, is that the first contact, you shouldn't anticipate a contract -- you're anticipating that contact will lead into the contract and that can be anywhere, what, a year -- from two weeks to a year. But, if we can cut down that meeting time -- that saves small business a lot of time.

Those are some of the things we're doing. Some of you are involved in 8a. I have some great news about that. That should be going to an online 8a by the end of the fiscal year. That means (inaudible) 8a applications (inaudible), and that's just too much. We're trying to (inaudible) that down and making it a lot easier.

Those are some of the things that are going on. I really do appreciate your coming here to St. Louis, and I'm going take a few questions (inaudible) to get that done. You

guys are doing great work, and I want to thanks the federal agencies for coming, the representatives from congressmen coming -- because we do need them -- and Sam (Inaudible) here.

**MALE SPEAKER:** The issue we heard today about tax penalties for first-time filers -- this is from our roundtables throughout the country. This issue came up and then this is what is pending on that.

**MALE SPEAKER:** Okay, here's the status on that. The House has passed HR 5028, which would allow the secretary of the Treasury to grant a one-time abatement of the failure to file (inaudible) for first-time filers and (inaudible) who have a history of compliance. (Inaudible) awaiting action in the Senate. But, it is moving (inaudible). (Inaudible) small business (inaudible). The other question right now, we (inaudible).

**FEMALE SPEAKER:** I was wondering if (inaudible) and so forth?

**MALE SPEAKER:** I think what I'll do -- actually, I'm glad Tom Hicks is here, because he's with the Department of Labor, and that will probably be the agency that deals with that. (Inaudible) that's not really a small business issue, but it's more of an individual employee issue. And I don't have much background on that. (Inaudible) issues involved there in the Department of Labor have much more to do with that. We can, at least, look into that. Right here, we don't have the answer to your question. (Inaudible) small business (inaudible) is missing.

**FEMALE SPEAKER:** Thank you.

**MALE SPEAKER:** Yes, sir.

**MALE SPEAKER:** I got an e-mail recently from the Small Business Association announcing they intend to change the definition of a small business...

**MALE SPEAKER:** You mean the Small Business Administration? (Inaudible) changing.

**MALE SPEAKER:** And, mentioning that this might allow bigger companies to now be legally within small business programs, which makes me wonder how much of that increase from 22.6 percent to 25 percent will be because they redefined small business to include (inaudible)?

**MALE SPEAKER:** Well, that increase in small business has not taken place yet. It's just out for comments, so it's still the same definition applied to that increase. So, they have to (inaudible) it has nothing to do with that. It's still the same people, but you will be getting more information on

that. Right now there are 37 different classifications to be a small business -- that's just too confusing. (Inaudible) down to just 10.

What is going to happen is that there only will be a net of about 1,000 to 2,000 businesses that will now be small businesses. It's just going to be on size standards. Before, a lot of this was based on revenue. We thought that wasn't fair to all people, so there is no -- I think we figured that some business will no longer be small businesses. Some will become small businesses. We have it out for a comment period right now. (Inaudible) that you may be concerned with, but nothing has been changed yet. It's just out for comment. (Inaudible) Department of Defense with our own (inaudible).

We've been working on this for a couple of years because we've been told by lots of small businesses that it's just too confusing. What's a small business? We're trying to put it into 10 classifications. So right now that increase is still based on the same classifications as before (inaudible) and now.

Okay? Yes, sir.

**MALE SPEAKER:** I have to attend another meeting in town, but I do have some cards that I could leave out if anyone has time to sit down, maybe another time, and talk about some issues, I'd be happy to do that. I also want to say that Senator Talent is the sponsor of the HB program, and with your (inaudible), Tom also sponsored anti-bundling legislation this past session with the (inaudible) SBA (inaudible), he is aware of the problems, and wants to do something about it. We hear a lot about bundling.

**MALE SPEAKER:** You're very lucky you've got two senators that serve on small business committees. They understand small business, and I encourage you to work with them and (inaudible) good friends of Senators Johnson and Bond. We appreciate that.

We also have representatives from Congressman Gephardt here, so if you want to get their cards, I encourage you to do so. Again, I appreciate you for coming. And I thank my SBA staff, they did a great job (inaudible) operate everything here. We have out computer operator here and we couldn't do without him. Thanks a lot.

(Applause)

(Whereupon, the foregoing proceedings concluded.)